

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1999

NOTE 13 – LEASES

The State leases various assets under noncancelable leasing arrangements. Leases, which constitute rental agreements, are classified as "operating" leases and the resulting expenditures are recognized as incurred over the lease term. Leases, which are, in substance, purchases are classified as "capital" leases and the resulting assets and liabilities are recorded at lease inception. For capital leases in governmental funds, "other financing sources" and "expenditures" are also recorded at lease inception. Lease payments are recorded as "debt service" expenditures. (As explained in Note #3, for budgetary purposes lease payments are only reported as expenditures when paid.)

Most leases have cancellation clauses with 1-6 month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable because the likelihood that such clauses will be exercised is considered remote.

Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that the option will be exercised. Some lease agreements include escalation clauses or other contingent rentals.

Note 13 continued on next page.

A summary of the noncancelable operating and capital lease commitments to maturity follows (in millions):

The State has entered into a few installment purchase agreements. Because the amounts involved are immaterial, and the accounting treatment is similar, such agreements are reported together with capital leases.

Leases that exist between the State and the State Building Authority are not recorded as leases for financial reporting purposes. For reporting purposes, the leases are eliminated and the liabilities of the Authority are included in the General Long-Term Obligations Account Group or reported as fund liabilities in the case of proprietary type funds. Future payments to the Authority are, therefore, not included in the schedules of lease commitments below. Note #14 provides information on the amount of the Authority's bonds outstanding and a schedule of debt service requirements.

A. Governmental Fund Types – Primary Government

Rental expenditures incurred under operating leases totalled \$39.8 million during the fiscal year. Payments for capital lease principal, interest, and executory costs totalled \$30.3 million, \$29.0 million, and \$15.1 million, respectively.

| Year Ended September 30 | Operating Leases | Capital Leases | | | |
|----------------------------|---------------------|-----------------|-----------------|--------------------|-----------------|
| | | Principal | Interest | Executory Costs | Total |
| 2000 | \$ 34.4 | \$ 20.8 | \$ 27.9 | \$ 14.3 | \$ 63.0 |
| 2001 | 24.8 | 18.5 | 25.9 | 13.2 | 57.5 |
| 2002 | 18.6 | 19.1 | 23.7 | 12.9 | 55.7 |
| 2003 | 13.0 | 19.1 | 21.6 | 12.5 | 53.1 |
| 2004 | 10.1 | 19.9 | 19.5 | 12.0 | 51.4 |
| 2005-2009 | 26.4 | 85.8 | 63.8 | 43.4 | 193.0 |
| 2010-2014 | 4.6 | 45.4 | 20.5 | 17.3 | 83.1 |
| 2015-2019 | - | 23.0 | 4.8 | 8.5 | 36.3 |
| 2020-2024 | - | 1.0 | .3 | .6 | 1.9 |
| Total | <u>\$ 131.9</u> | <u>\$ 252.5</u> | <u>\$ 207.9</u> | <u>\$ 134.6</u> | <u>\$ 595.0</u> |

All of the above capital leases are related to governmental fund operations and the total \$252.5 million of capital lease principal is recorded as part of the General Long-Term Obligations Account Group.

The historical cost of assets acquired under capital leases included in the General Fixed Assets Account Group at September 30 follows (in millions):

| | |
|-----------|-----------------|
| Buildings | \$ 349.0 |
| Equipment | <u>12.4</u> |
| Total | <u>\$ 361.3</u> |

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 FISCAL YEAR ENDED SEPTEMBER 30, 1999

B. Proprietary Fund Types - Primary Government

Rental expense incurred under operating leases totalled \$31.4 million during the fiscal year. Payments for capital lease principal, interest, and executory costs totalled \$11.1 million, \$2.0 million, and \$0, respectively.

A summary of the noncancelable operating and capital lease commitments to maturity follows (in millions):

| Year Ended September 30 | Operating Leases | Capital Leases | | | |
|----------------------------|---------------------|----------------|---------------|--------------------|----------------|
| | | Principal | Interest | Executory Costs | Total |
| 2000 | \$ 1.5 | \$ 10.8 | \$ 1.9 | \$ - | \$ 12.7 |
| 2001 | .7 | 4.7 | 1.2 | - | 5.9 |
| 2002 | .5 | .4 | .1 | - | .5 |
| 2003 | .3 | .3 | .1 | - | .3 |
| 2004 | .2 | .1 | - | - | .1 |
| 2005-2009 | .6 | - | .1 | - | .2 |
| 2010-2014 | - | - | - | - | - |
| Total | <u>\$ 3.9</u> | <u>\$ 16.3</u> | <u>\$ 3.5</u> | <u>\$ -</u> | <u>\$ 19.7</u> |

All of the above capital leases are related to proprietary fund operations and the capital lease principal is recorded as a liability in the respective funds as follows (in millions):

| | |
|------------------------|----------------|
| Internal Service Funds | <u>\$ 16.3</u> |
| Total | <u>\$ 16.3</u> |

The assets acquired under capital leases are recorded as fund assets as follows (in millions):

| | |
|-----------------------------|------------------------------|
| | Internal Service Funds |
| Buildings | \$ - |
| Equipment | <u>57.1</u> |
| Total | 57.1 |
| Accumulated Depreciation | <u>(34.8)</u> |
| Net Buildings and Equipment | <u>\$ 22.3</u> |

Discretely Presented Component Units

None of the State's component units have lease commitments which are material to the State's financial statements.